



COMMONWEALTH of VIRGINIA

Office of the Governor


Jody M. Wagner
Secretary of Finance

December 4, 2006

P. O. Box 1475
Richmond, Virginia 23218

MEMORANDUM

TO: James McGuirk, Chairman

FROM: Jody M. Wagner 

SUBJECT: Enterprise Applications Project


Chairman McGuirk:

Thank you very much for your guidance and direction regarding the Enterprise Applications (EA) project. As the Cabinet Sponsor responsible for its success, I can assure you that the Information Technology Investment Board's (ITIB) guidance will be sought and welcomed every step of the way. This project is significant to the future financial management of the Commonwealth and, as such, will be treated as one of my highest priorities.

As you are aware, the overall scope of this project contemplates changes in the areas of Financial, Administrative, Human Resource, and Supply Chain management processes and systems. These areas are generally defined in the Enterprise Business Architecture Version 1.0 document that was approved by the ITIB in April 2005. To lower risks and control costs, it has always been the intent of the Commonwealth to approach this project in phases.

To that end, this memo briefly describes Phase 1 (Financial Management) and asks for the release of appropriated funds (through the Virginia Technology Infrastructure Fund) to continue planning and Enterprise Resource Planning (ERP) product selection. Phase 1 of the EA project will provide a new ERP-based budget development system in June 2008. Also included in Phase 1 is the deployment of the ERP's full Financial Management system (FMS) in June 2009, which will include new budget execution, accounting, and financial reporting products. These products will feature portions of related human resource and procurement functionality.

Phase 1 will replace the antiquated Program Budgeting (PROBUD) and Central Accounting and Reporting System (CARS) applications, which are used by approximately 250 Commonwealth entities as the official budget development and accounting systems of the Commonwealth. It is important to note that of these entities,

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nearly half have developed and maintained their own accounting systems to interface with CARS because they have accounting requirements that exceed the functionality of CARS. Further, in this phase, the new ERP-based FMS will replace the accounting systems currently used by the Virginia Department of Transportation (VDOT), Virginia Employment Commission (VEC), Virginia Information Technologies Agency (VITA), and the Department of General Services (DGS). Each of these four agencies has terminated their individual plans for new financial systems and joined the EA project to obtain the new system that is needed.

The current estimated cost for Phase 1 is approximately \$100 million in total. This estimate includes all integrator fees, costs for Commonwealth project team staff, software, and technology products.

To continue making progress with these implementations, the EA project team would like to leverage its existing "planning" approval and proceed with a critical "next step" that we refer to as Planning and Product Selection. This step includes working with the previously selected integrator, CGI, and Commonwealth staff to initiate a procurement for the ERP software, create a "Future State" document that describes the targeted business processes and system requirements, conduct a fit-gap analysis between that "Future State" and the selected ERP, and develop a general design and implementation plan (reference June 2008 and June 2009 above). This step also includes changes to Department of Taxation systems to enable enhanced tax collection activities that will provide additional revenues to help fund Phase 1.

At this point, the project activities are being led by an interim project director, Ned O'Neill (brief bio attached), however, we are in the process of conducting a national search for a permanent project director as required by Item 54.10, Chapter 3, 2006 Acts of Assembly, Special Session I (the Appropriation Act). We hope to have this process completed with the permanent director on board in the first quarter of 2007. In terms of distinct project deliverables, a total of 26 are expected. Each will be reviewed and approved before the associated funds are paid.

At the conclusion of Planning and Product Selection (estimated for the third quarter of 2007), the EA project team will submit to the ITIB a charter and proposal to be considered for "development" approval. Upon reaching this point, the team will be positioned to begin the Development phase of the project when the ITIB approves the project to move forward.

You will recall that the General Assembly appropriated a total of \$11,000,000 for the 2006-2008 biennium (\$5,500,000 in both fiscal year 2007 and fiscal year 2008). To date, \$550,000 has been released by the ITIB to establish the Project Management Office (PMO) -- please reference the memo from William H. Leighty to you on July 14, 2006.

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This leaves a balance of \$10,450,000 for the biennium from the current appropriation. To fund the Design and Product Selection activities presented above, we are asking the ITIB to release the remaining \$10,450,000 to be spent in the following manner:

CGI Fixed Fee Deliverables	\$1,200,000
CGI Time & Material Deliverables	\$6,940,077
COVA Project Staff (assigned to project)	\$1,300,000
IV&V	\$250,000
Tax System Modifications	\$600,000
ERP Software RFP	<u>\$150,000</u>
Total Expenditures for Design and Product Selection	\$10,440,077

<i>Release Amount Requested</i>	<i>\$10,450,000</i>
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To facilitate your understanding of this request, I have attached the presentation I plan to provide to the ITIB on December 7, 2006, along with a detailed deliverable list showing the full range and timing of activities planned for the Design and Product Selection phase. Recognizing that some of the appropriated funds in fiscal year 2008 will be needed in fiscal year 2007, if the ITIB approves this request, we will provide the Governor with a decision brief to request transfer of the funds from fiscal year 2008 to fiscal year 2007 to ensure the project is funded according to schedule.

Thank you very much for your assistance, time, and attention. I look forward to seeing you on December 7.

Enclosures

Edmond (Ned) O'Neill

Mr. O'Neill is a technology executive with over 16 years of experience in large, complex and highly visible government environments. Prior to being hired by the Virginia Department of Transportation (VDOT) in December 2004 as the FMS Upgrade Project Director, Mr. O'Neill was a Partner at Accenture, LLP where he served as the Business Development Lead for the Commonwealth of Virginia and the District of Columbia.

Mr. O'Neill has worked with Enterprise Resource Planning (ERP) applications for 11 years. His experience includes Financial Management System, HR/Payroll, and Supply Chain Management projects in Virginia, North Carolina and the District of Columbia.

Mr. O'Neill led VDOT's participation in the Enterprise Applications (EA) Due Diligence work completed in June 2005, and has been an active member of the EA Advisory Team since April 2006.

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Status Update provided to the ITIB

December 7, 2006

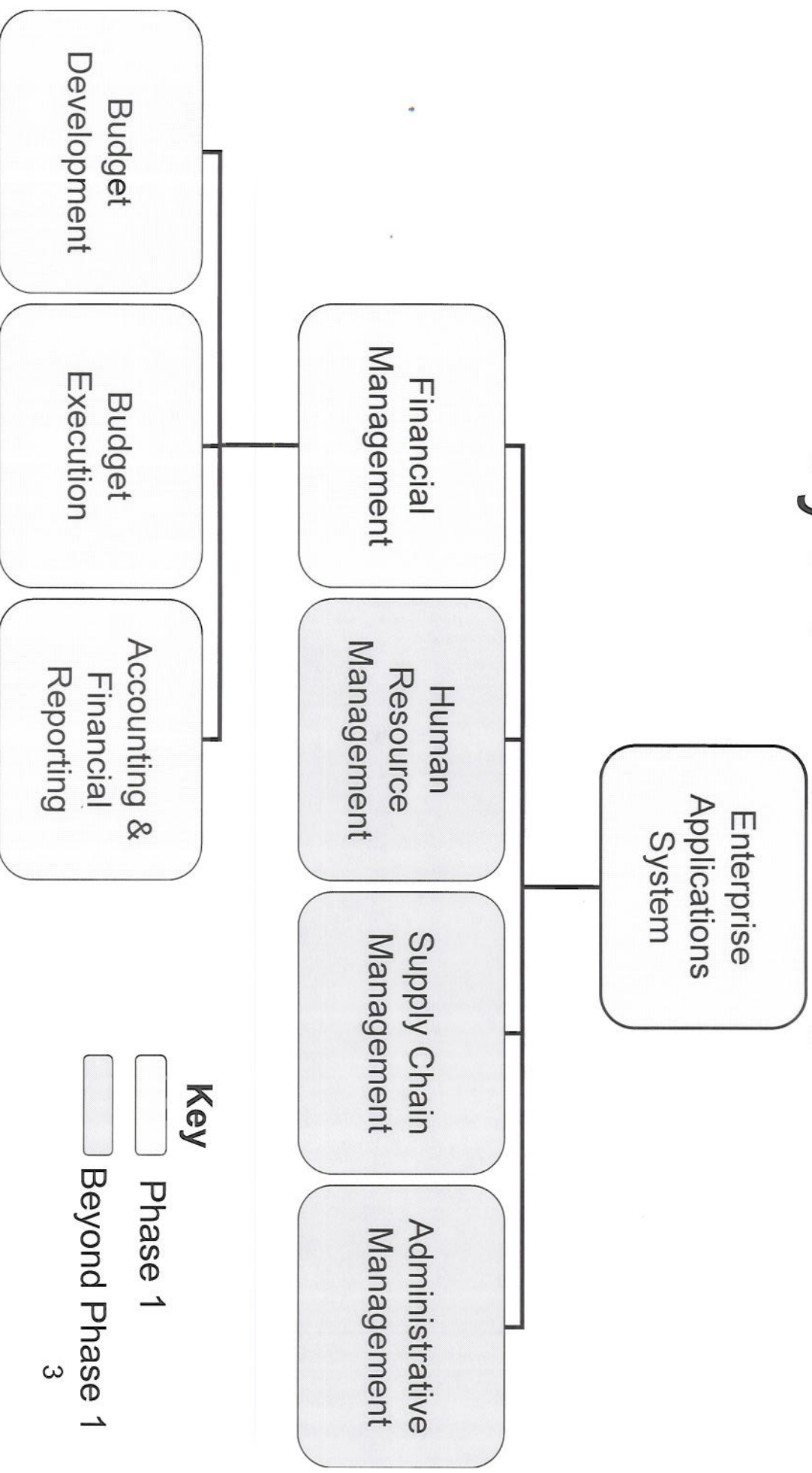
Jody M. Wagner

Secretary of Finance

Enterprise Applications

- Purpose
 - Phase 1 – Financial Management System (FMS)
 - Update the Board on the Scope and Timeline of Phase 1
 - Request release of funding for Planning and Product Selection activities

Enterprise Applications System Overview



Enterprise Applications

- Why start with Financial Management?
 - If an Enterprise solution was not being considered at this time, the Commonwealth would still face the need to replace its financial systems
 - We would still be reviewing business processes
 - We would still be considering an ERP software solution
 - We would still be hiring an integrator
 - Current systems do not support the needs of most state agencies. Over 150 separate financial systems of various types were discovered during due diligence

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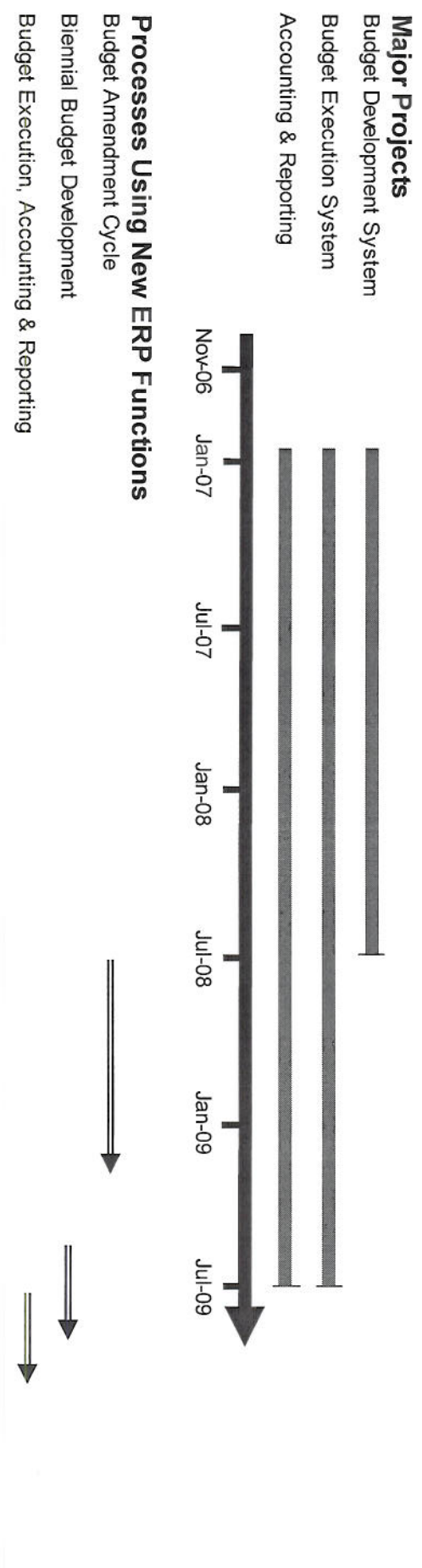
- Why start with Financial Management? - *continued*
 - Risk of system failure and the diminishing pool of knowledge to support these antiquated systems
 - The potential exists for material errors that could lead to internal control findings or audit qualifications resulting from risks associated with antiquated systems. Concerns include:
 - Processes that require manual intervention
 - Significant data analysis and manipulation are required that adversely impacts timely financial reporting
 - Weaknesses in numerous reports as cited by the APA

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- Phase 1 – Financial Management System (FMS)
 - Scope includes two major application releases
 - New ERP-based Budget Development System (June 2008)
 - New ERP-based Integrated Financial Management System – includes Budget Execution, Accounting & Financial Reporting, portions of HR and potential interfaces with Procurement (June 2009)

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- Phase 1 – FMS: High Level Schedule



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- Phase 1 – FMS: Scope
 - 9 Functional Areas: General Accounting, Accounts Payable, Accounts Receivable, Procurement (initial interface), Fixed Assets, Cost Accounting, Performance Budgeting, Budget Execution, Time and Attendance
 - System Replacement for: DPB ProBud, DOA CARS, VDOT FMSII, as well as VEC, DGS, and VITA financial management systems
 - Approximately 250 Commonwealth entities that use CARS or report financial data to CARS will be impacted
 - About half currently use CARS as their primary accounting system and will use the new FMS
 - Other half that currently interface or report data to CARS will interface or report to new FMS

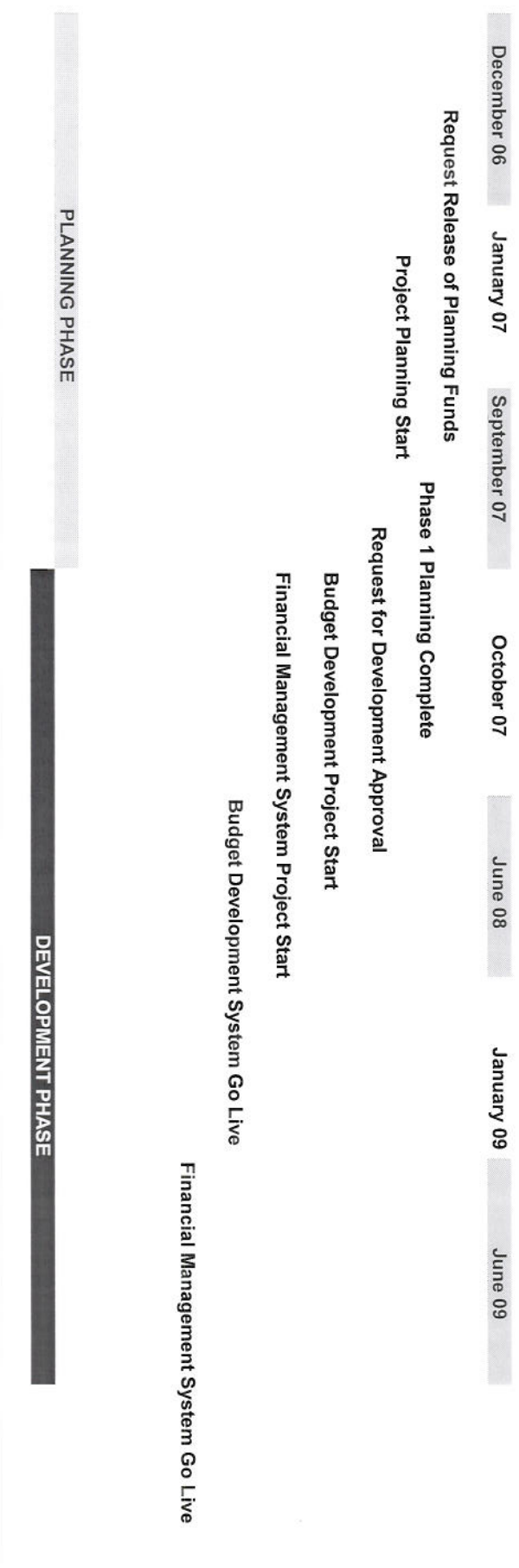
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- Phase 1 – Financial Management System (FMS)
- Current ly estimate approximately \$100m

High Level Estimate for Phase 1 Costs (m)	
Software	13
Hardware	9
COVA Project Resources*	12
Integrator Fees	60
Independent Verification and Validation (IV&V)	3
Facilities and Support	3
Total for Phase 1	\$100
* 33 FTE assigned to project for duration	

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- Phase 1 – FMS: Key Milestones



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- Phase 1 – FMS: Next Steps
 - Activation of Tax Collection Agreement
 - Q1 07
 - Hire Permanent EA Director
 - Q1 07
 - Procurement of ERP Software for the Commonwealth
 - Release RFP, Review Proposals, Negotiations
 - Selection by late Q2/early Q3 07
 - Contract award will come AFTER Development Approval
 - Planning (Completed by Q3 07)
 - Future Business State Definitions
 - Fit-Gap Analysis
 - General Design
 - Implementation Plan
 - Development Approval Documentation

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• Phase 1 – FMS: Planning and Product Selection Deliverable Schedule

No.	Deliverable Name	Tentative Due Date
1	Draft Financial Management (FM) and Performance Budgeting (PB) Future State Business Process/Best Practices Environment Definition Documents	Q4 06
2	Updated FM & PB Future State Business Process/Best Practices Environment Definition Documents	Q1 07
3	Project Plan	Q1 07
4	Project Management Approach and Execution Document	Q1 07
5	Issue Management Plan and Execution Procedures	Q1 07
6	Risk Management Plan and Execution Procedures	Q1 07
7	Change and Communication Management Plan and Execution Procedures	Q1 07
8	Future State Environment Definition Approach and Execution Procedures	Q1 07
9	General Design Approach and Execution Procedures	Q1 07
10	ERP Software RFP Issuance	Q1 07
11	FM & PB Future State Business Process/Best Practices Environment Definition Presentation Documents	Q1 07
12	Modified FM & PB Future State Business Process/Best Practices Environment Definition Documents	Q1 07
13	Final FM & PB Future State Business Process/Best Practices Environment Definition Documents	Q1 07
14	ERP Software Proposals Submission	Q1 07
15	Policy and Procedure Analysis Approach	Q2 07
16	Training Approach	Q2 07
17	Test Approach and Execution Procedures	Q2 07
18	Technical Architecture	Q2 07
19	Interface Approach and Functional Specifications	Q2 07
20	Management and other Reporting Approach and Analysis	Q2 07
21	Conversion Approach and Functional Specifications	Q2 07
22	ERP Software Proposal Evaluations	Q2 07
23	ERP Software Negotiation and Award	Q2 07
24	Fit-Gap Analysis	Q3 07
25	General Design and Final Implementation Plan	Q3 07
26	Development Approval Documents	Q3 07

Enterprise Applications

- Phase 1 – FMS: Planning and Product Selection Costs

Phase 1 - FMS: Planning and Product Selection Costs	
CGI Fixed Fee Deliverables	1,200,000
CGI Time & Material Deliverables	6,940,077
CoVA Project Resources	1,300,000
Independent Validation and Verification (IV&V)	250,000
Tax System Modifications*	600,000
Software RFP	150,000
Total New Requests	10,440,077
Enterprise Applications Start Up	550,000
Total Previous Requests	550,000
Phase 1 Total Requests To Date	10,990,077

* Note: EA Program to be reimbursed over 3 year period

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Questions?

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Phase 1 - FMS
Planning and Product Selection Deliverable List

1. Draft Financial Management (FM) and Performance Budgeting (PB) Future State Business Process / Best Practices Environment Definition Documents. This deliverable will be the initial iteration of the FM & PB Future State Business Process / Best Practice Environment Definition document for each business process in the Financial Management Business Area. It will include the best practice business processes, change impacts, organizational design and the key functional requirements for business processes and process threads as derived from the Due Diligence process, other Commonwealth initiatives, and other State's requirements. Documents will be created for the following business areas:

- 1) General Accounting
- 2) Budget Execution
- 3) Accounts Payable
- 4) Fixed Assets
- 5) Encumbrances
- 6) Accounts Receivable
- 7) Cost Accounting
- 8) Performance Budgeting
- 9) Time & Attendance

2. Updated FM & PB Future State Business Process / Best Practice Environment Definition Documents. This deliverable will be the updated iteration of the FM & PB Future State Business Process / Best Practice Environment Definition document for each business process in the Financial Management Business Area. These updates will be derived from meetings and working sessions conducted with the COVA project team.

3. Project Plan. This deliverable will be the baseline project plan based on the established start date, with position descriptions, tasks, estimated levels of effort, deliverables dates, and milestones. This plan will be in the form of a Microsoft Project work plan

4. Project Management Approach and Execution Document. This Deliverable will describe the program governance and management policies, procedures, standards, and toolsets that will be utilized to conduct the project. This document will:

- identify the project review schedule,
- establish procedures for project management status reporting,
- describe the organization chart and roles and responsibilities of the positions,
- provide templates for documentation,
- define the quality assurance and IV&V processes as agreed to by the Commonwealth,
- define the scope control and decisioning processes,
- describe the fiscal management process, and
- define the deliverables review and acceptance processes

5. Issue Management Tool and Execution Procedures. This Deliverable will describe the mutually agreed-upon approach to resolving issues that arise during the project. This document will describe procedures and templates for documenting, analyzing, resolving, escalating, and reporting issues

Enterprise Applications
Phase 1 - FMS
Planning and Product Selection Deliverable List

6. Risk Management Tool and Execution Procedures. This Deliverable will provide the mutually agreed-upon approach to managing risk to the project's success. This document will describe procedures and templates that will be used by both Parties to identify, monitor, mitigate, escalate, and report risks to the project

7. Change and Communication Management Plan and Execution Procedures. This Deliverable will describe the approach to communicating project status and impacts to key stakeholders, user community, and other COVA entities in an effort to inform the project's various constituencies of the project's objectives, plans, and progress in order to facilitate their participation in the project and/or promote their support of the project. This plan will document the change management objectives, communication media, level of effort, and key milestones. The plan will consist of:

- Organizational Change Management Strategy and Plan (including a readiness assessment)
- Communication Strategy and Plan
- Stratified Stakeholder Engagement Strategy and Plan

8. Future State Environment Definition Approach and Execution Procedures. This Deliverable will describe the approach, level of detail, and methodology for gathering and cataloging the Financial Management and Performance Budgeting Future State Business Process / Best Practice Environment Definitions and functional requirements. This document will also provide the Environment Definition document template and describe the methodology used to complete the documents.

9. General Design Approach and Execution Procedures. This Deliverable will describe the approach, level of detail, and methodology for conducting the General Design phase of the project.

10. ERP Software RFP Issuance. This Deliverable will include the release of a competitive procurement for the COVA's Enterprise Application Program. The document will specify COVA functional and technical requirements as they pertain to ERP software, as well as a contract template, required for each vendor response.

11. FM & PB Future State Business Process / Best Practice Environment Definition Presentation Documents. This deliverable will consist of a written presentation describing the FM & PB Future State Business Process / Best Practice Environment Definition document. This presentation will be used to facilitate a series of meetings that will be conducted to present the updated draft of the FM Future State Business Process / Best Practice Environment Definition documents to the COVA project team, DOA / DPB, and key agency subject matter experts.

12. Modified FM & PB Future State Business Process / Best Practice Environment Definition Documents. This Deliverable will be the modified iteration of the FM & PB Future State Business Process / Best Practice Environment Definition document based upon the comments and information gathered during review meetings. These updates will be derived from the meetings and information garnered from the COVA project team and DOA / DPB, and key agency subject matter experts.

Enterprise Applications

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13. Final FM & PB Future State Business Process / Best Practice Environment Definition

Documents. This Deliverable will be the updated and final iteration of the FM & PB Future State Business Process / Best Practice Environment Definition for each business process in Financial Management and Performance Budgeting Business Area. These updates will be derived from comments made by the CFO's during the presentation meetings.

14. ERP Software Proposals Submission. This Deliverable will serve as the registry for ERP software proposals received by COVA as part of the Enterprise Applications Program.

15. Policy and Procedure Analysis Approach. This Deliverable will describe the level of effort, roles and responsibilities, and approach to documenting functional procedures for the FM and PB enterprise solution.

16. Training Approach. This deliverable will define the overall approach and high level plan for the training component of the project. This plan will describe the target groups (e.g., end users, technical, management, impacted stakeholders), the mode of training to be used, (e.g., computer-based, classroom, computer-based), required technical environments, and required resources and timeframe to conduct the training during the implementation phase. The plan will provide for training that will need to occur both early in the project in order to conduct project activities as well as after deployment for post-implementation use, operations, and maintenance.

17. Test Approach and Execution Procedures. This deliverable will describe the overall test plan for the implementation phase of the project, including the types of testing that will occur (e.g., system, user acceptance, performance), roles and responsibilities, and the recommended success criteria to be met for each type of testing.

18. Technical Architecture. This deliverable will describe the overall technical architecture for the implementation of the selected COTS financial management solution, including the hardware and software, required hardware and software licenses, approach to disaster recovery, and tools required for operation and maintenance of the selected COTS solution. This deliverable will include a configuration management plan that describes required technical environments, software control and migration procedures, version control procedures, estimated maintenance requirements, and a plan for achieving performance targets.

19. Interface Approach and Functional Specifications. This deliverable will list the required interfaces and describe the approach and high level plan to implement them in connection with the selected COTS solution. The deliverable will also provide a framework for how interfaces will be designed and developed and describe the data elements and specific transactions that will be interfaced into the selected COTS solution.

20. Management and Other Reporting Approach and Analysis. This deliverable will describe the overall approach and high level plan for implementing standard, management-level and ad hoc reporting capabilities. This deliverable will also describe in narrative fashion the development necessary to implement this capability and an approach and plan to its implementation.

21. Conversion Approach and Functional Specifications. This deliverable will describe the overall approach and high level plan for conversion, including identification of the legacy system data that needs to be converted for processing and reporting needs, tools and reconciliation processes necessary to convert data to the selected COTS solution. This will also include a description of roles and responsibilities, a logical timeline for conducting conversion, a list of required reconciliation processes, and a definition of success criteria for the conversion process.

Enterprise Applications

Phase 1 - FMS

Planning and Product Selection Deliverable List

22. ERP Software Proposal Evaluations. This deliverable will include the documented analysis of the RFP responses. Pre-defined evaluation criteria will serve as the metric to narrow the field of potential vendors. Results of on-site demonstrations and vendor site visits/reference checks will be included in this documentation.

23. ERP Software Negotiation and Award. This deliverable will result in a contract award to the vendor who best meets COVA requirements outlined in the RFP. A team of negotiation specialists (functional, technical, financial and legal) will develop a negotiation strategy and conduct vendor negotiations on behalf of the COVA.

24. Fit-Gap Analysis. This deliverable will validate the business requirements listed in the FM & PB Future State Business Process / Best Practice Environment Definition document, describe the fit the selected COTS solution provides for the business requirements, define the structure of a new chart of accounts, identify necessary business process modifications, and list the software modifications necessary to bridge identified gaps or new business processes.

25. General Design and Final Implementation Plan. This Deliverable will provide the final general design as well as an implementation plan for the installation of both the Performance Budgeting solution as well as the full Financial Management solution. The implementation plan will serve as the basis for the business case to continue the implementation of these solutions. The plan will include the project team recommendation on which agencies should implement the selected COTS FM and PB solutions, as well as the detailed costs and schedule associated with the implementation. The general design will provide the business descriptions of the necessary COTS product configurations, software enhancements, legacy system interface needs and methods, legacy data conversion needs and methods, workflow recommendations, key business process reengineering opportunities, potential cost savings, reporting needs and methods, and technical environment configuration.

The Final General Design and Implementation Plan will consist of the following:

- 1) Business process reengineering strategy
- 2) Organizational impact and transition strategy
- 3) Rollout implementation strategy
- 4) Enterprise Application Center of Excellence strategy
- 5) Service Bureau strategy
- 6) Workflow strategy
- 7) Change management for people plan including communications
- 8) Management and other reporting requirements
- 9) Functional and technical, training requirements
- 10) Procedures and documentation requirements
- 11) Performance tuning plan
- 12) Regulatory & policy reform
- 13) Interface and conversion requirements
- 14) Infrastructure requirements (e.g., hardware, applications, operating software, network)
- 15) Staff requirements
- 16) Implementation schedule
- 17) Implementation costs, on-going support costs, and cost savings related to the reengineered enterprise business processes

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26. Development Approval Documentation. This Deliverable will provide the necessary documentation for VITA PMD, the Commonwealth's CIO and the ITIB to review the request for system development approval as required by VITA PMD. Documents included within this deliverable are:

- Project Charter
- Project Proposal
- Cost Benefit Analysis
- Complexity Analysis
- Risk Analysis
- Return on Investment